

Washington State Economic & Revenue Outlook

Presented to
Thurston County Joint Elected and Department Directors
Meeting

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June 9, 2010
Olympia, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



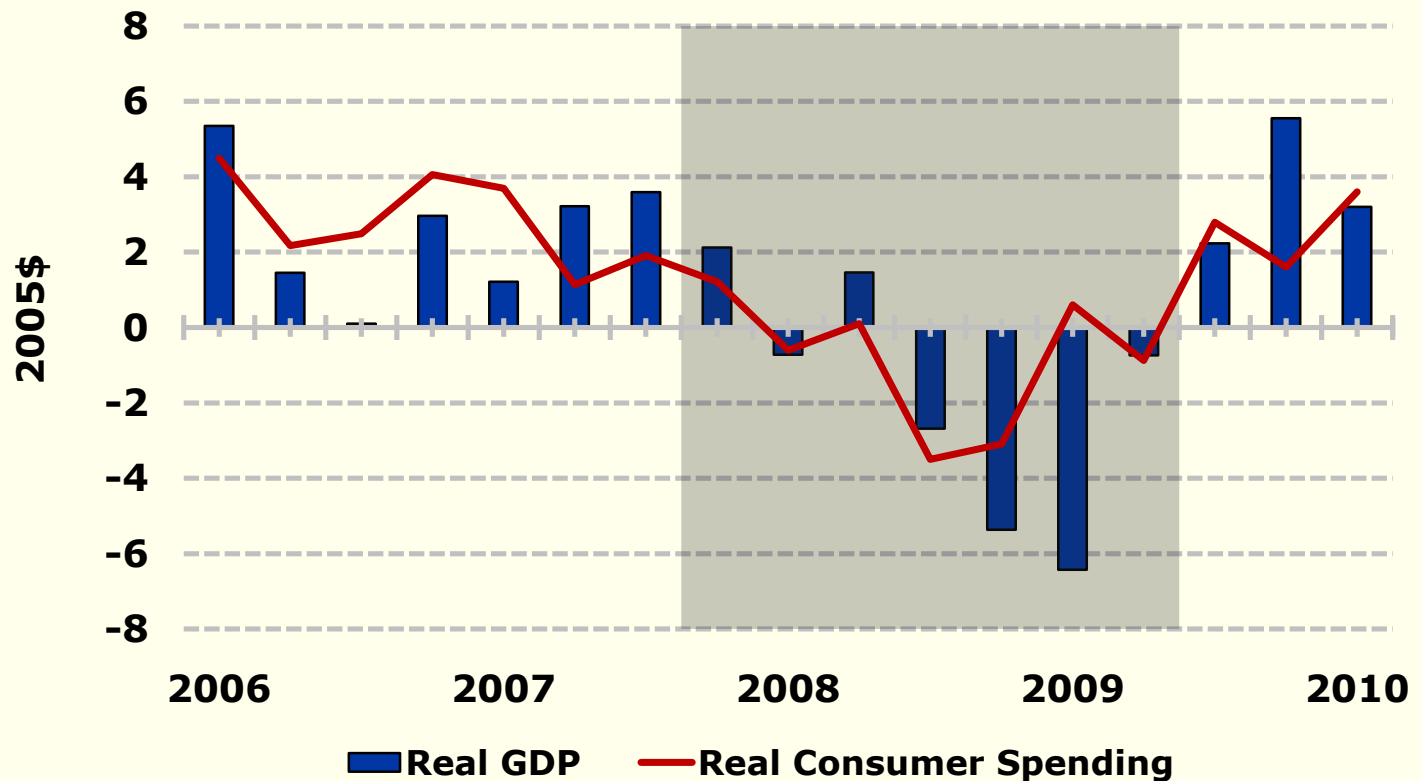
Summary

- We are coming out of the “Great Recession”
 - The recovery is gaining traction
 - Private spending – both consumer and business – is firming
 - Job growth has finally returned
 - Probability of a double-dip is receding
- Headwinds
 - Financial markets – volatility; credit to small business
 - Construction
 - Greek sovereign debt crisis’ impact on WA will be minimal, if contagion is avoided
- WA outperformance still on track
 - Exports
 - Stable aerospace and software publishing



We have had 3 consecutive quarters of GDP and consumer spending growth

Percent growth, SAAR





We have had national job growth in 5 of the last 6 months



Source: BLS; data through April 2010



At this stage in 1981-82, the state economy had made up all of the job losses

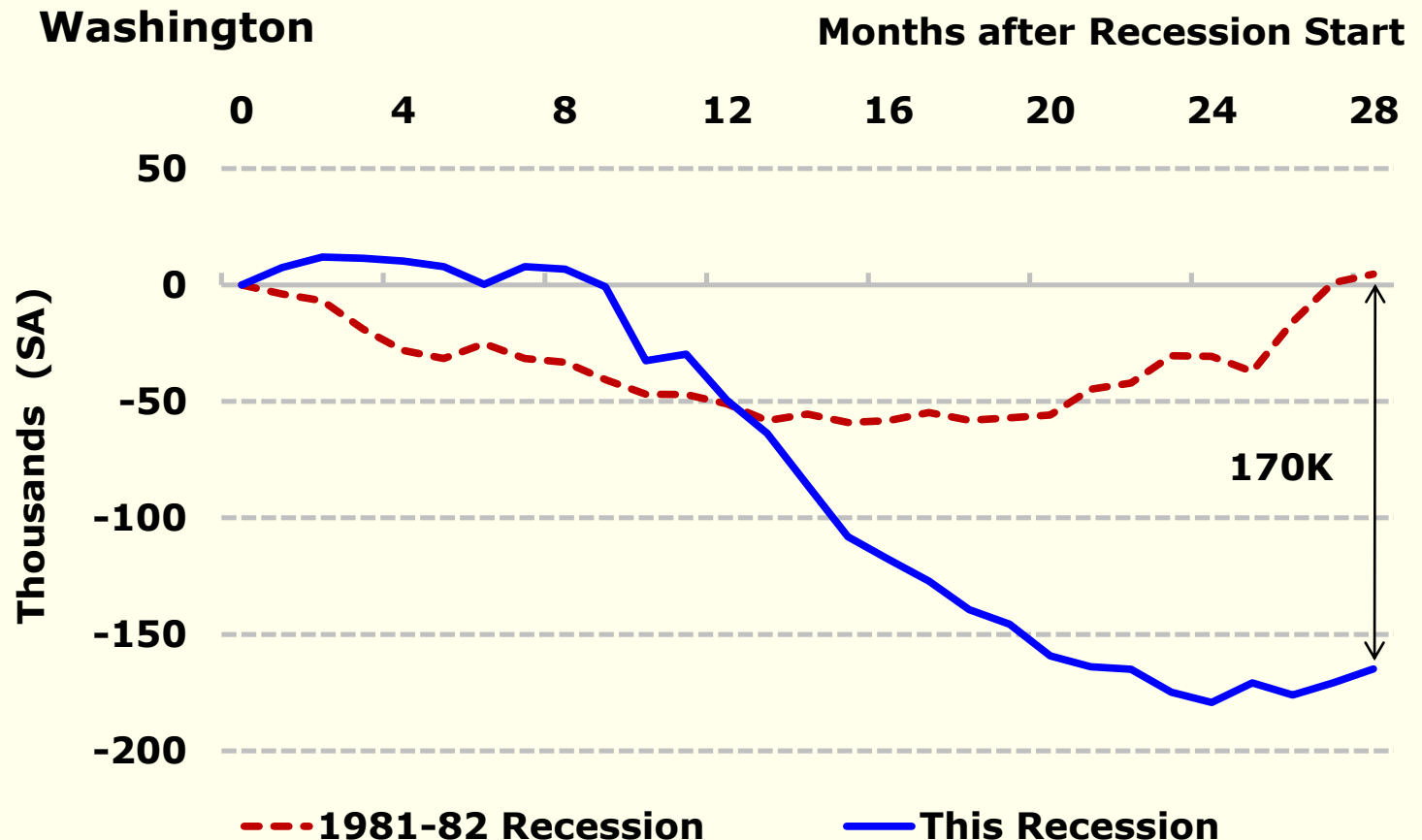
Peak to
trough job
losses

1981-82:

2.9% of
labor force

This time:

5.1% of
labor force



Source: WA State ESD, ERFC; data through April 2010

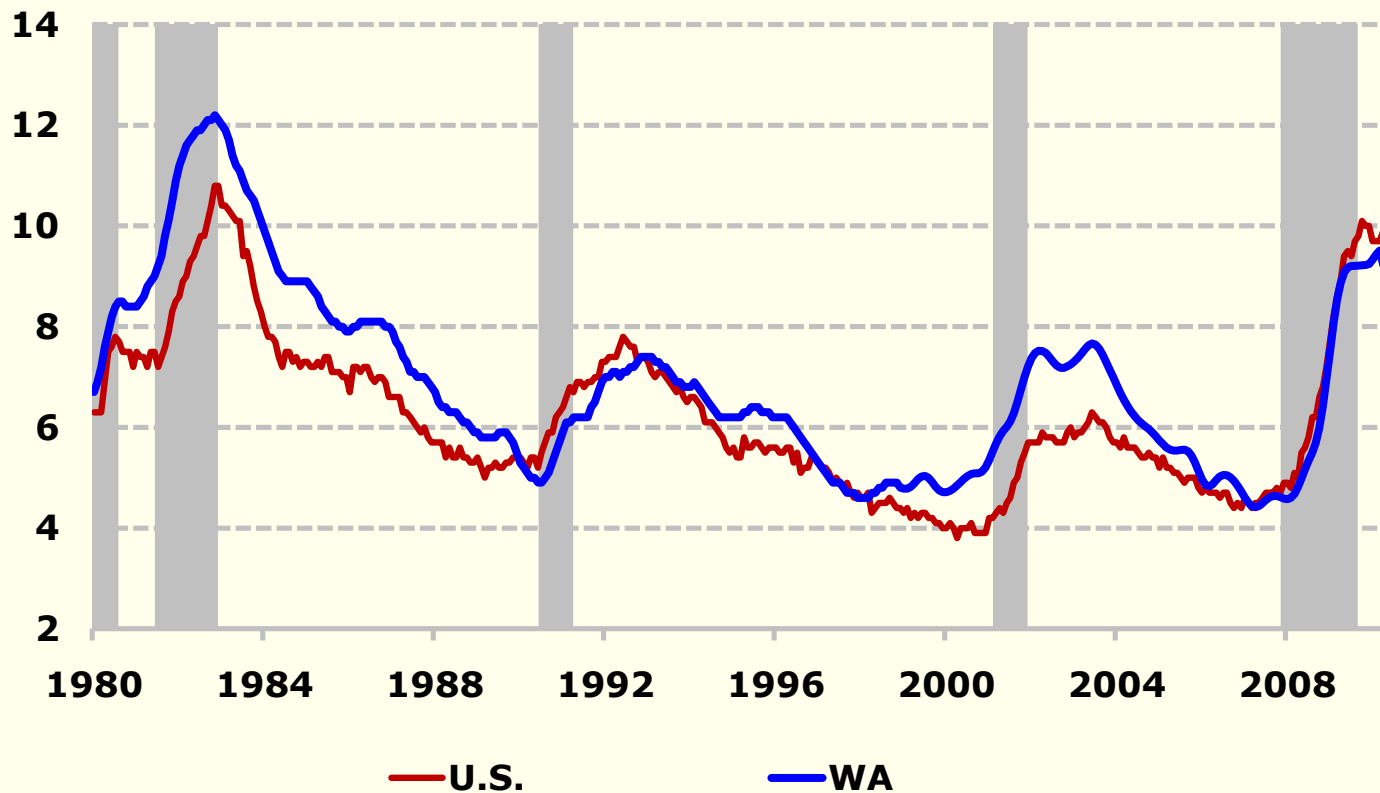
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Unemployment is still high

It is normal for this rate to continue to rise even after the economy is in recovery

Unemployment Rate, Percent, SA

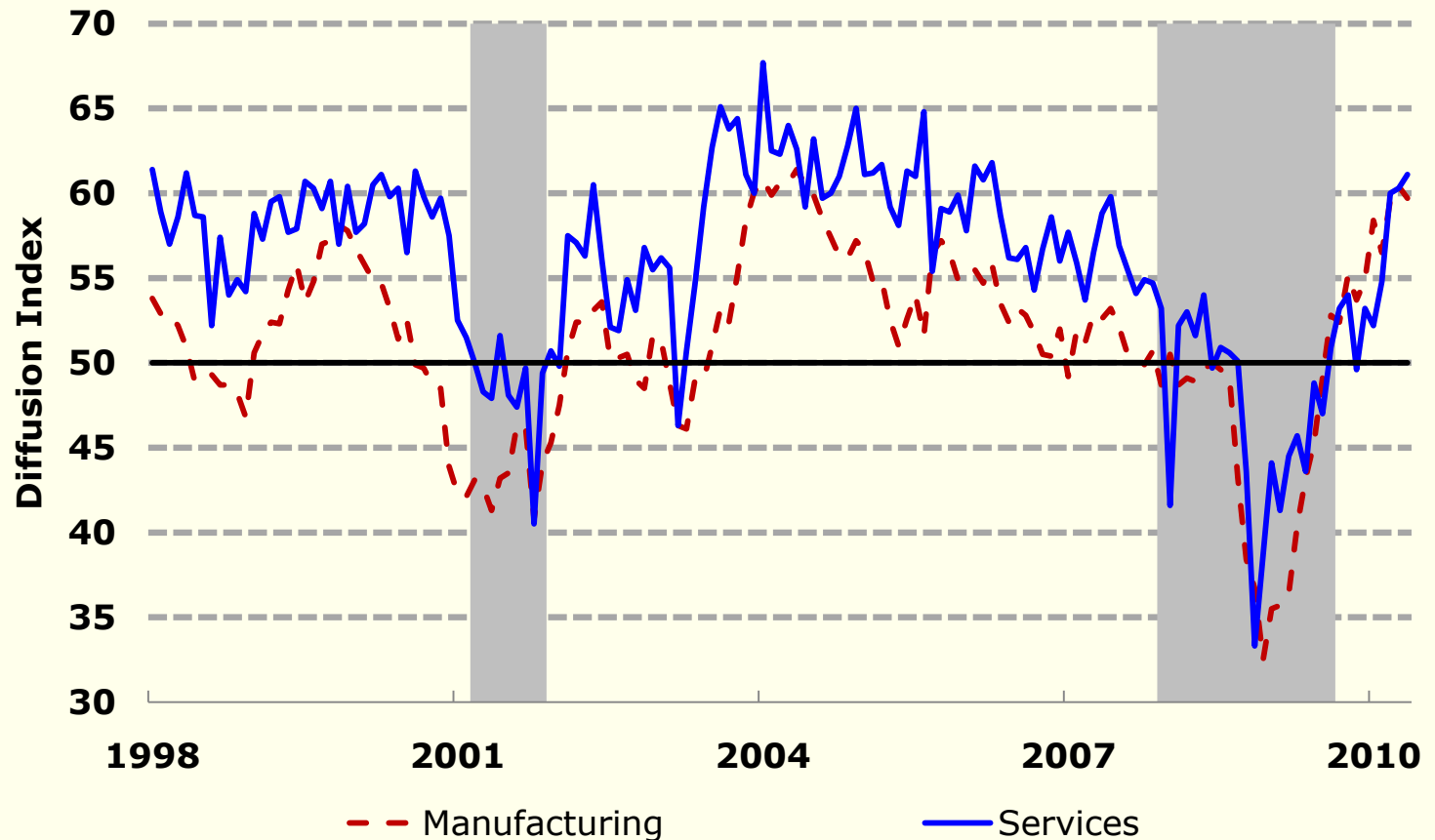


Source: WA ESD, BLS; data through April 2010



ISM indices for both services and manufacturing indicate growth

An index greater than 50, implies growth



Source: Institute of Supply Management; data through May 2010



Inter-bank lending has tightened, but only marginally

The spread indicates the premium banks have to pay to borrow from each other

USD 3m LIBOR - 3m US T-bill Spread
Basis Points



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Source: British Bankers Association, US Federal Reserve Bank, ERFC; data through May 31, 2010



The S&P 500 VIX volatility index has spiked recently

This index is a proxy for fear and uncertainty in markets



Source: Yahoo Finance; data through May 28, 2010

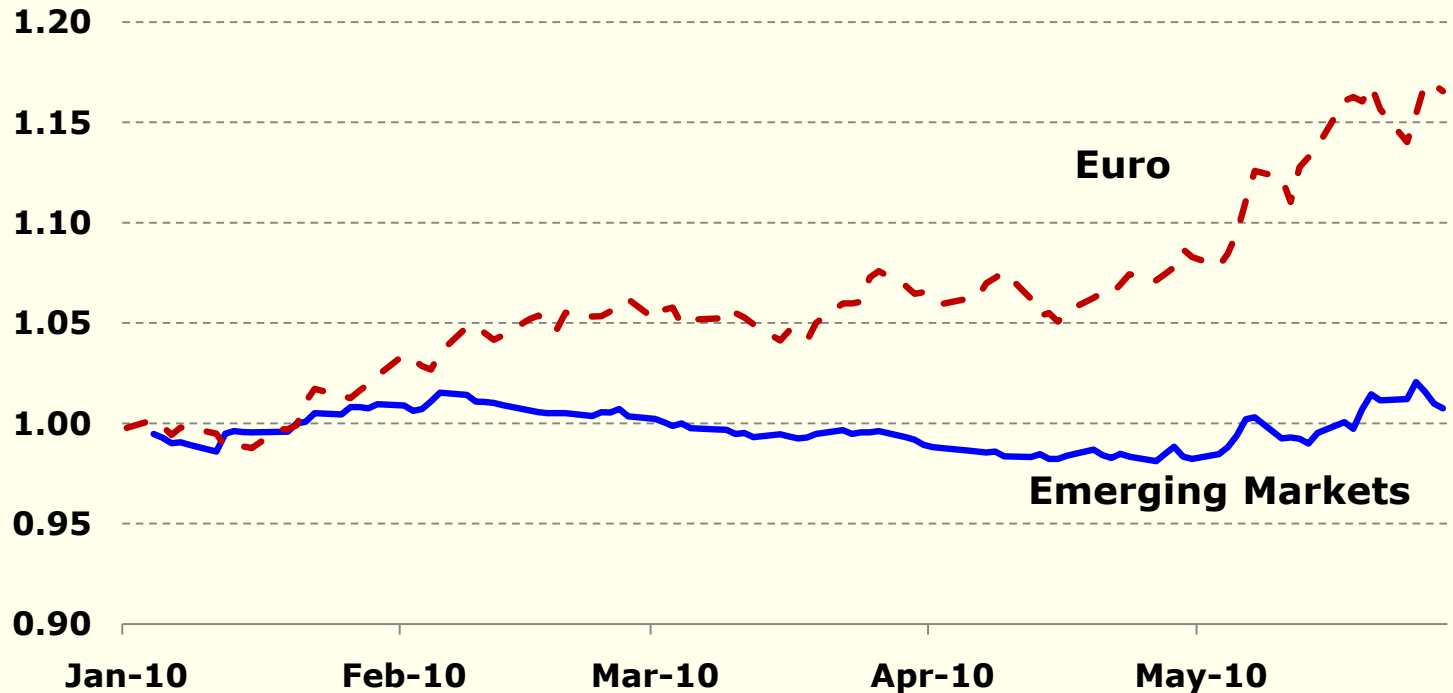
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The USD has appreciated against the EUR this year, but not against emerging market currencies

U.S. Dollar versus select currencies

Index, Dec. 31, 2009 = 1.0



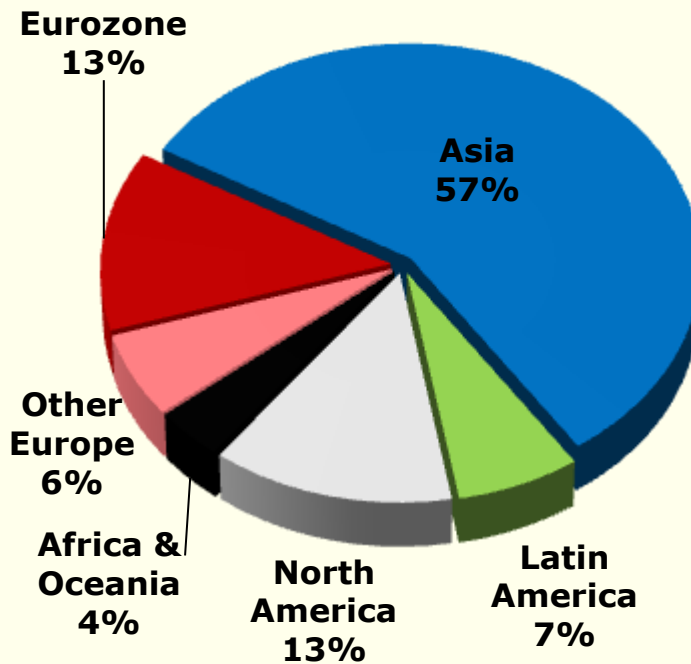
Source: US Federal Reserve Bank, ERFC; data through May 28, 2010



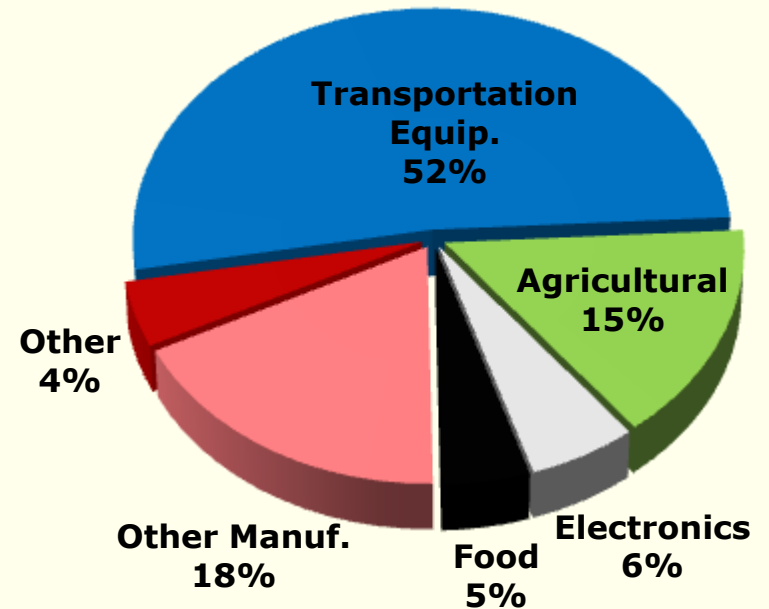
Non-commodity exports are less likely to be affected by a stronger USD

2009

By Region



By Industry



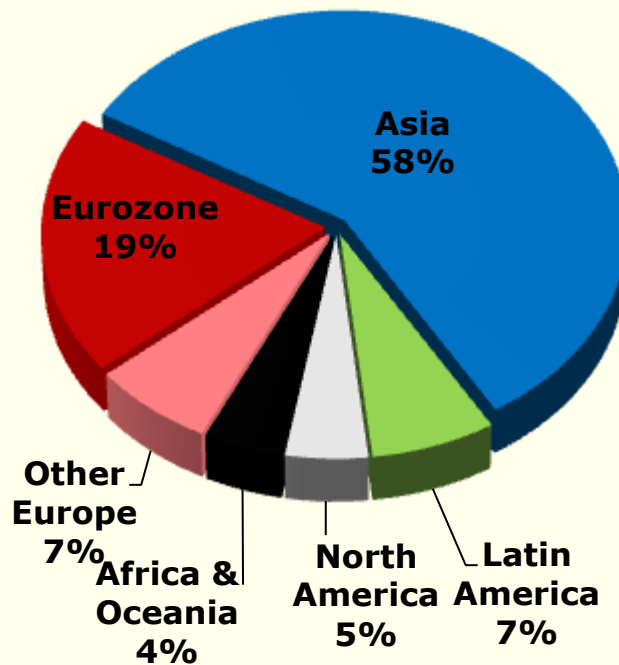
Source: Wiser Trade Data



The vast majority of Washington agriculture exports go to Asia ... so not affected by a weaker EUR v USD

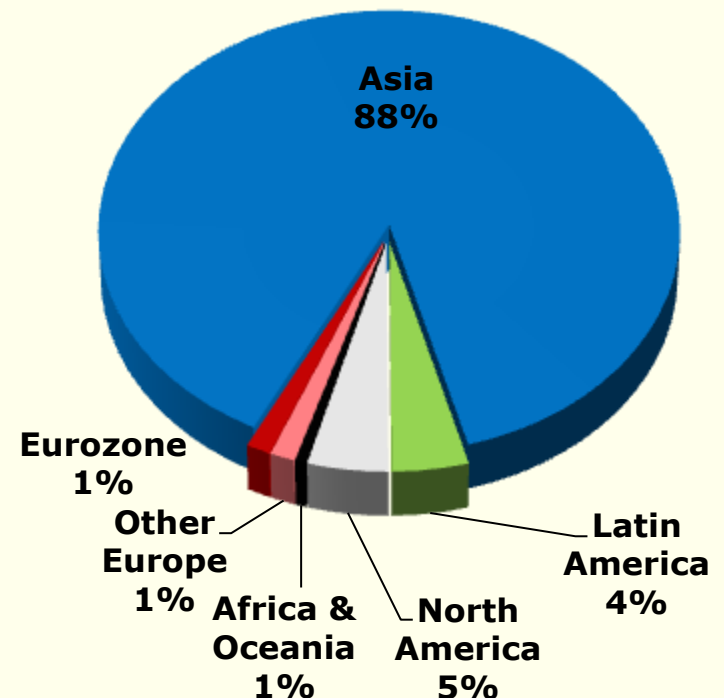
2009

Transportation Equipment



Source: Wiser Trade Data

Agriculture

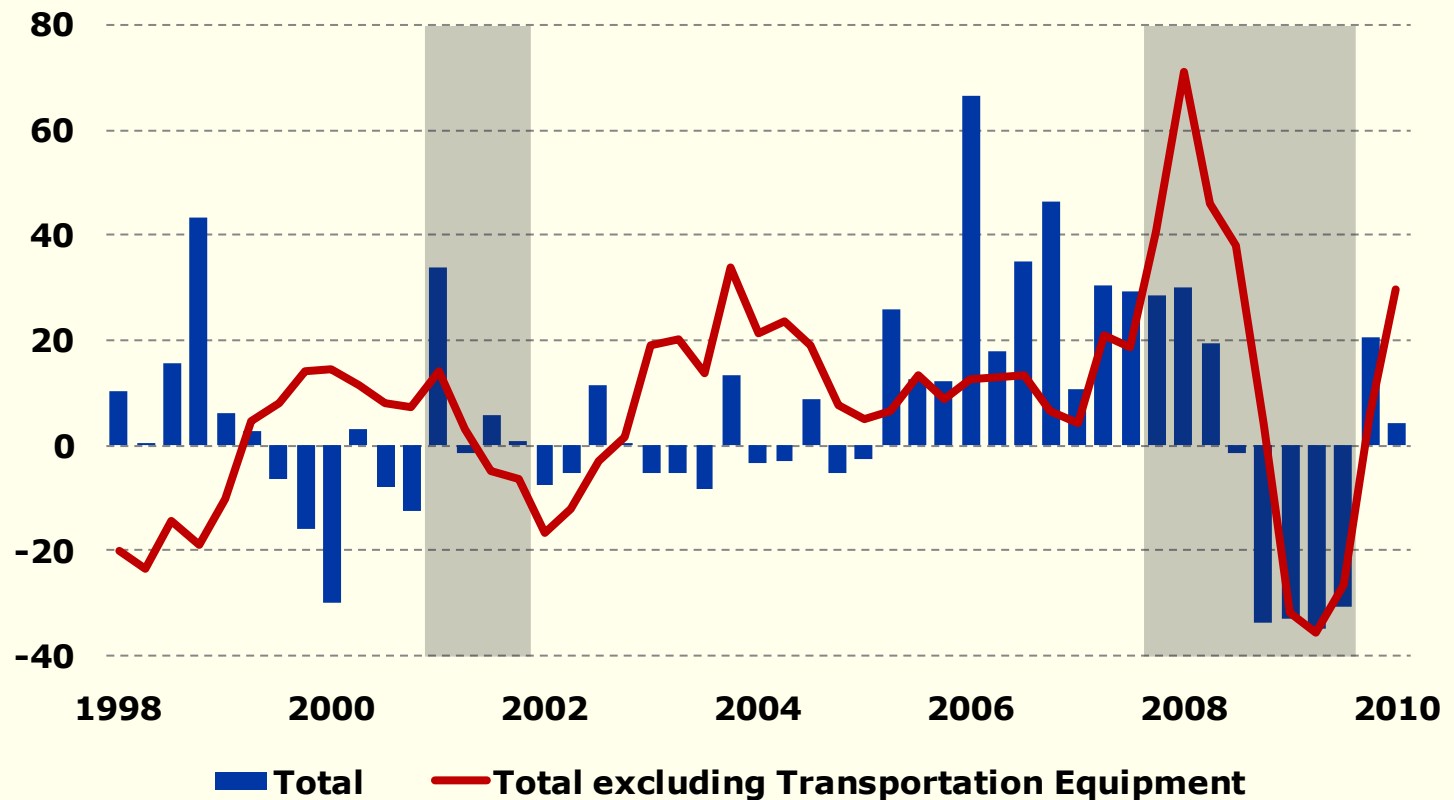




Exports will help the state recover faster than the nation

Exports excluding transport equipment were up 30% in Q1

Exports
Percent Change, year ago



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Source: Wiser Trade Data; through 2010 Q1

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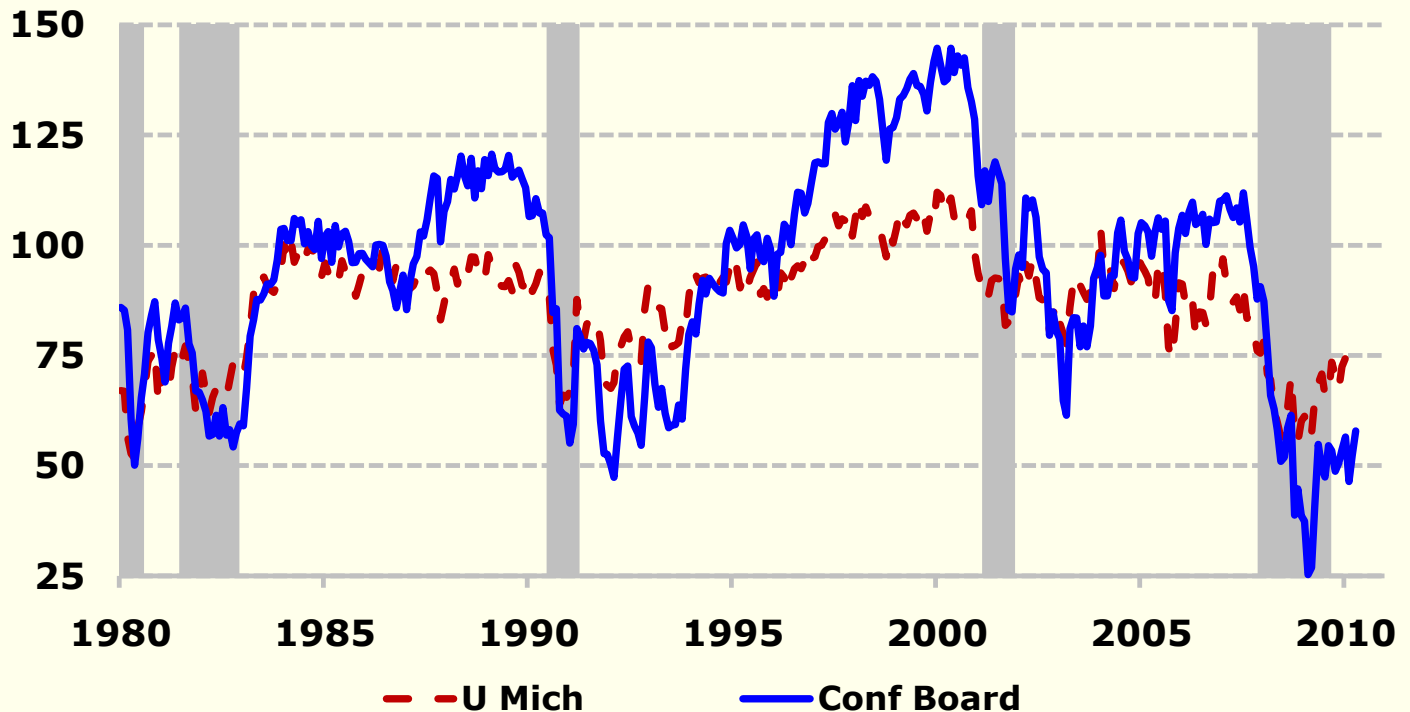


Consumer confidence is improving, but slowly

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



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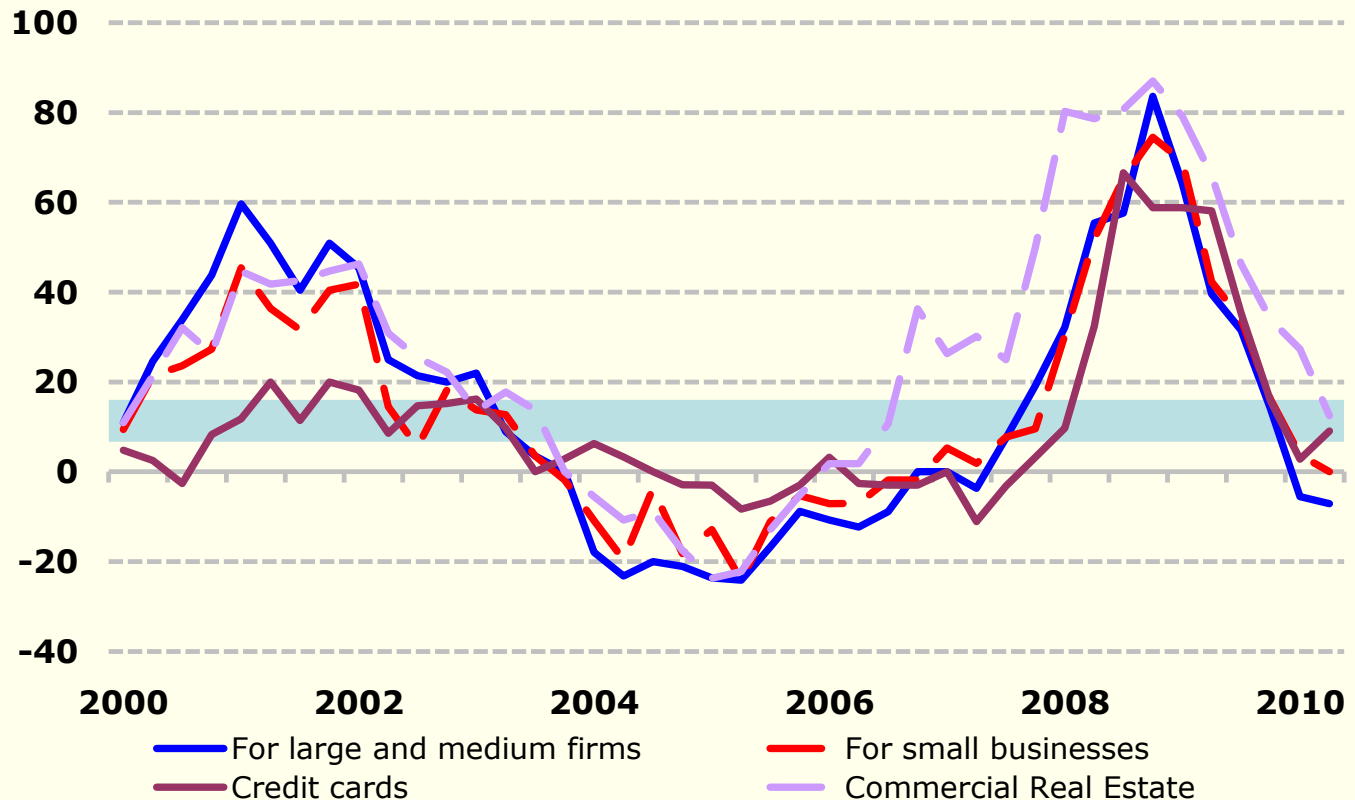
Source: University of Michigan; Conference Board, data through May 2010



Large bank lending appears to be easing

Survey includes 60 large domestic banks and 24 U.S. branches of foreign banks

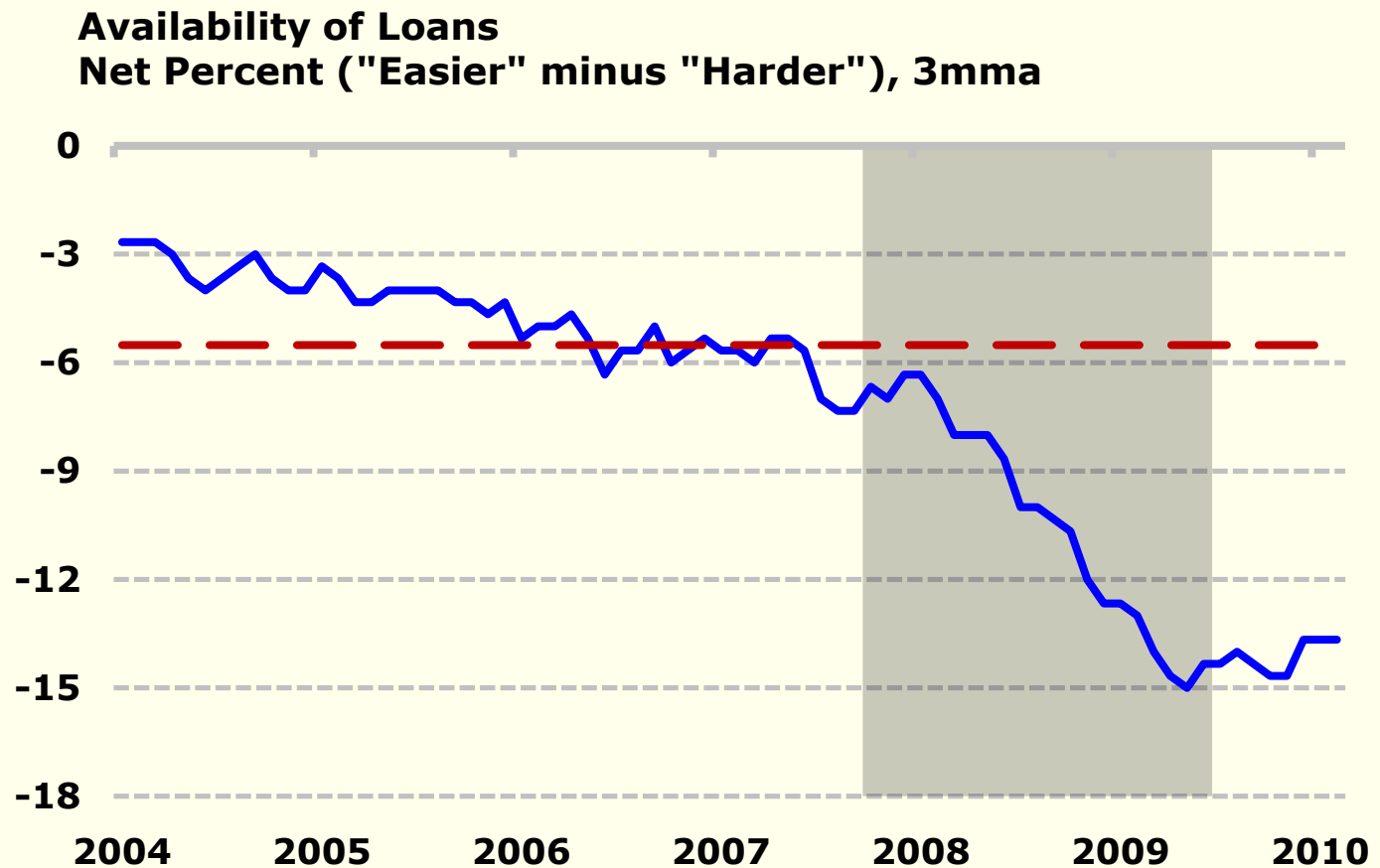
Net Tightening minus Easing Percent



Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey; data through April 2010 survey



Credit conditions remain tight for small business



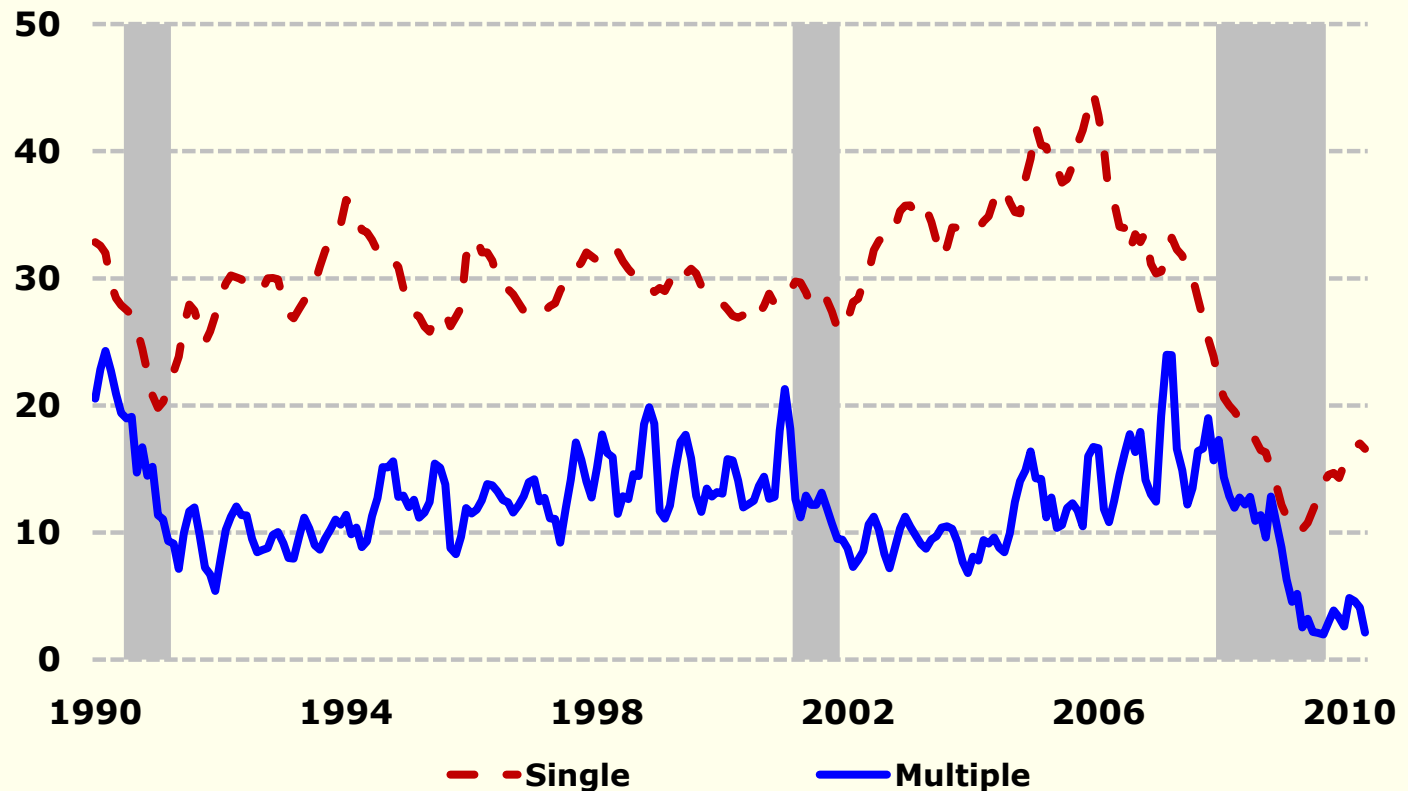
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Source: National Federation of Independent Business; data through April 2010



WA single family housing is improving, but mostly because of the first time homebuyer tax credit

Thousands, SA, 3MMA

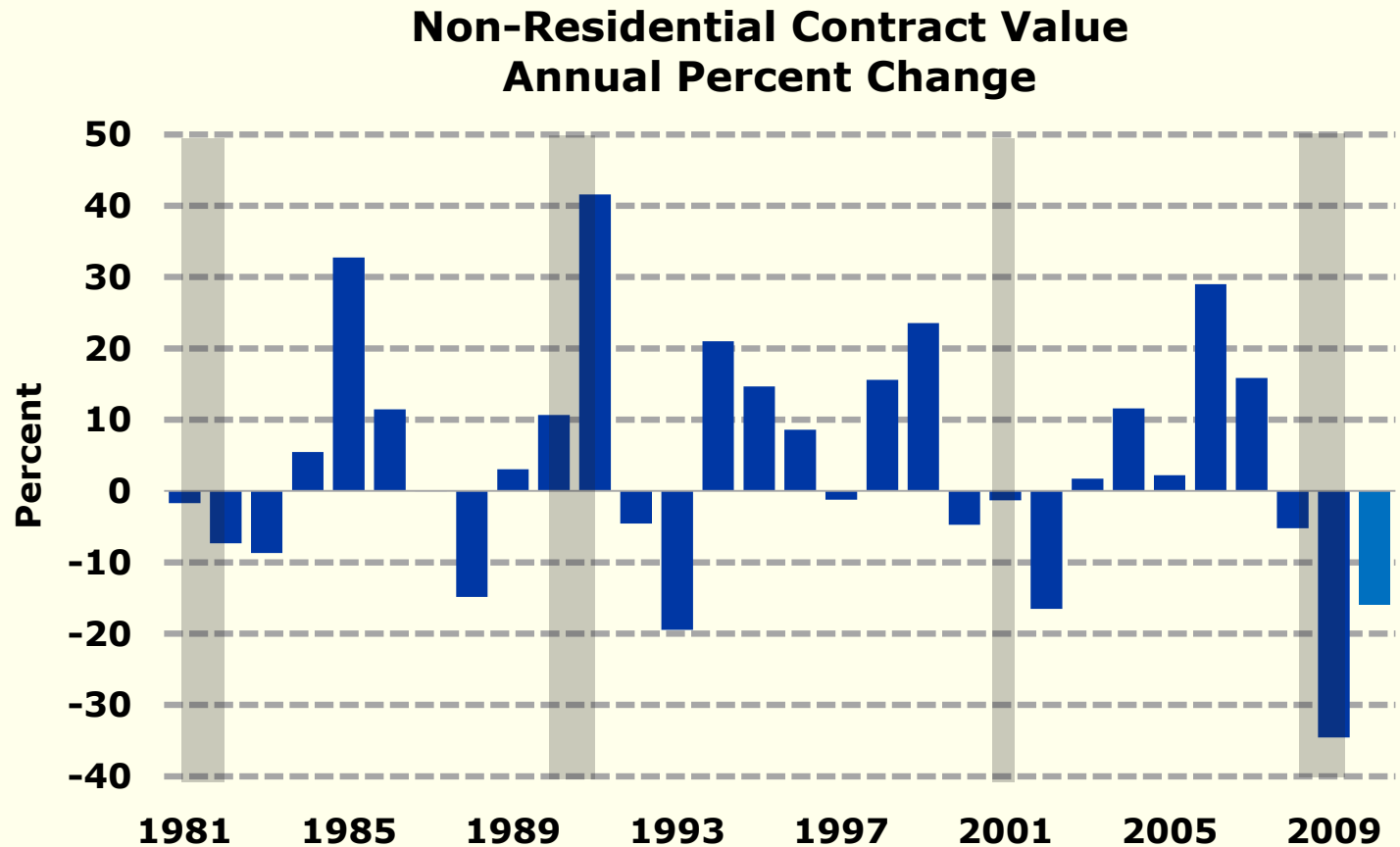


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Source: U.S. Census Bureau; data through April 2010



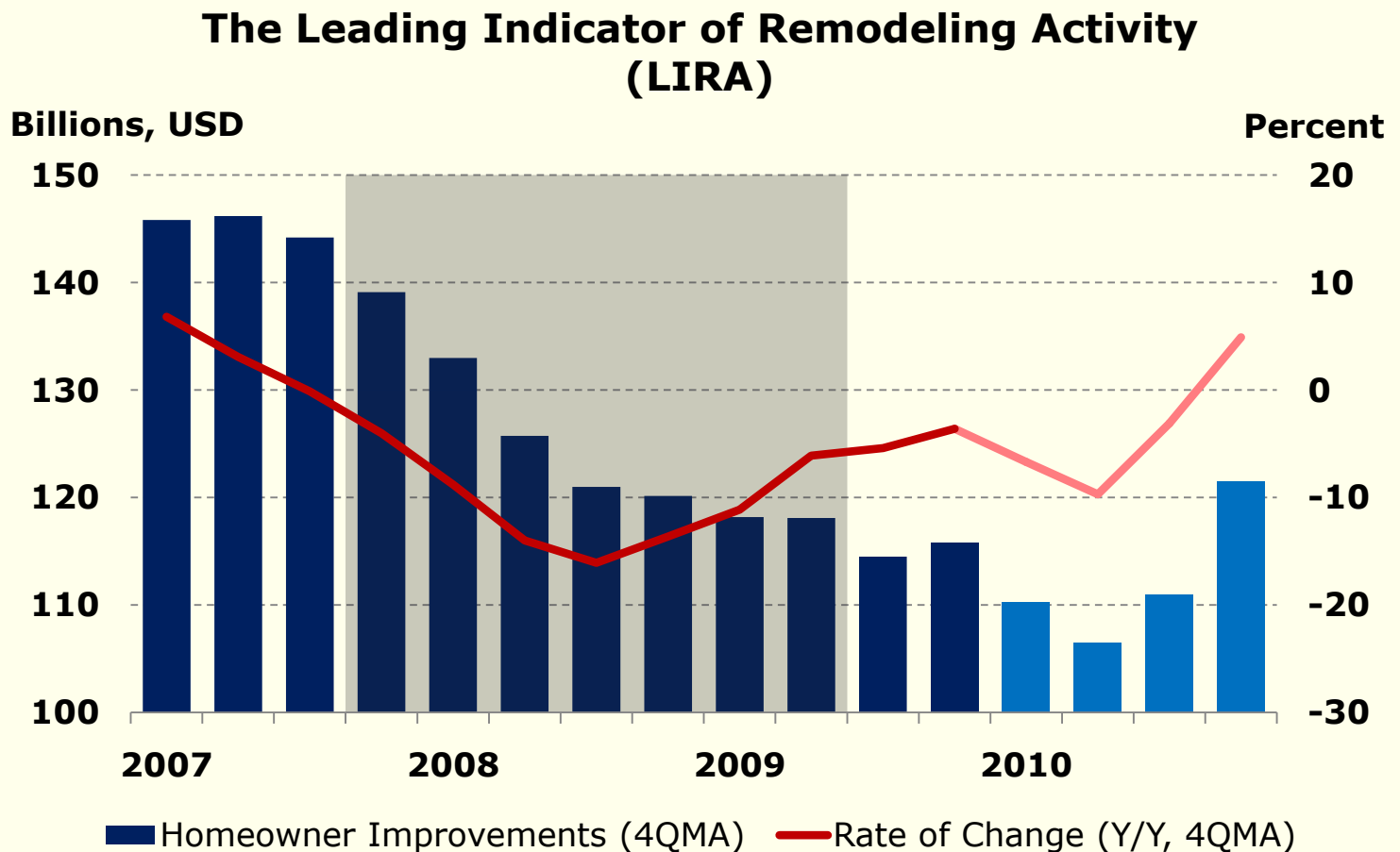
This is the worst downturn in non-residential construction in 30 years



Source: McGraw-Hill Construction, data through April, 2010



Leading indicator suggests remodeling improvement in 2010



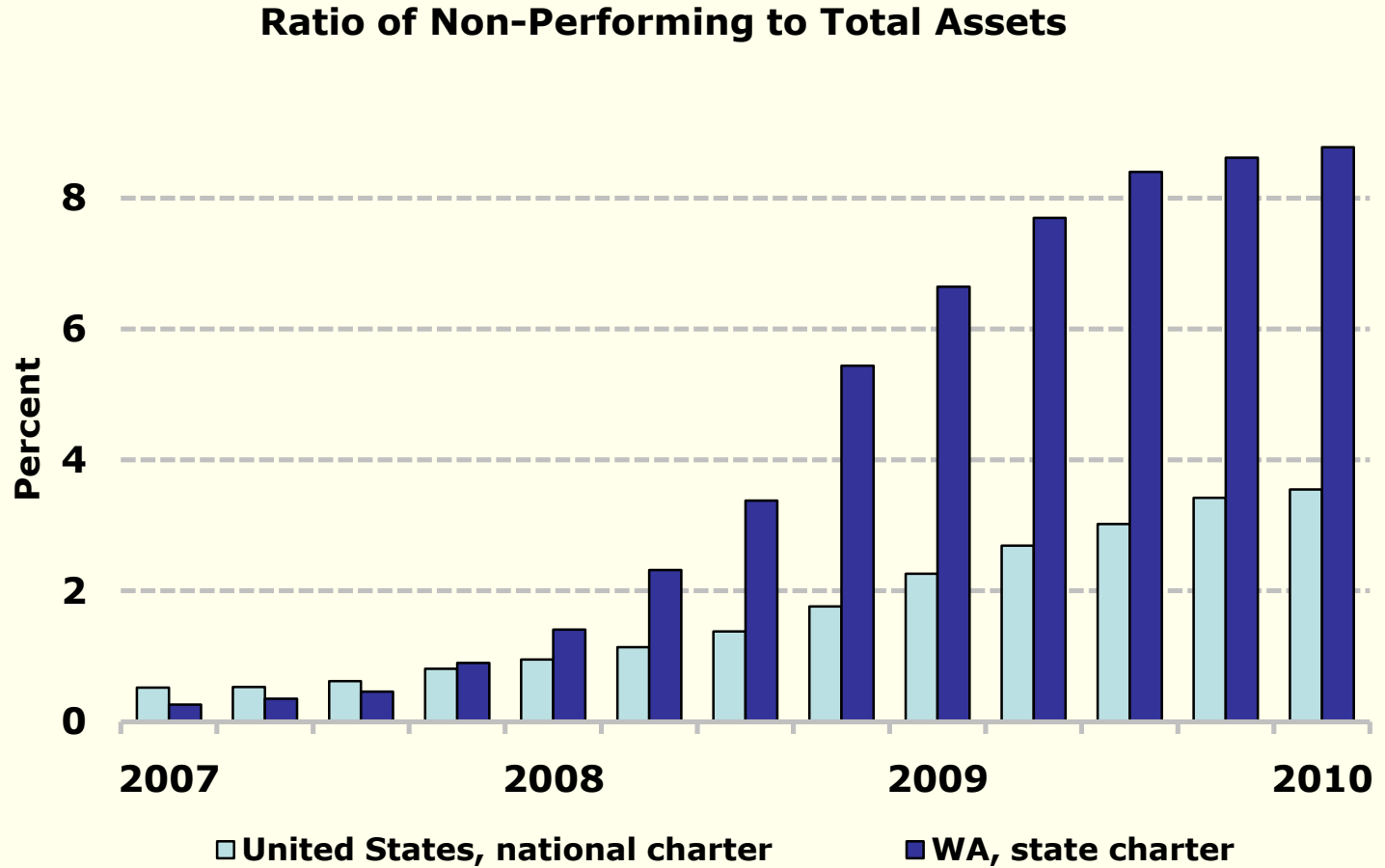
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Source: Joint Center for Housing Studies of Harvard University, actual data through 2009 Q4



Asset quality of regional banks is poorer, but leveling off

The poorer asset quality of regional banks is due to their disproportionately high exposure to commercial real estate



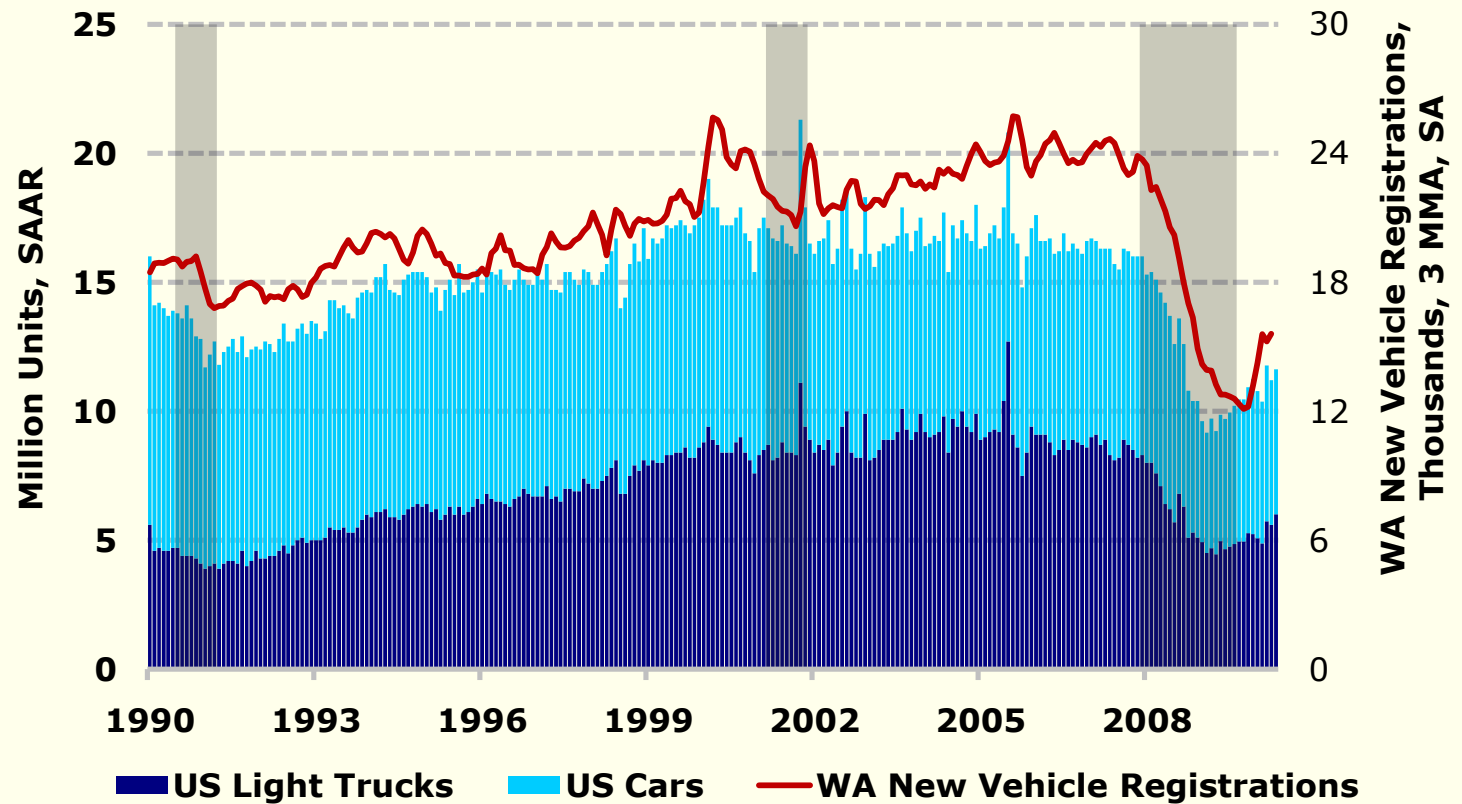
Source: FDIC, data through 2010 Q1



Automotive sales continue to improve

National car sales were 19% higher in May 2010 than in May 2009

Cash for Clunkers effect removed



Source: Autodata Corporation, WA DOL; data through May 2010

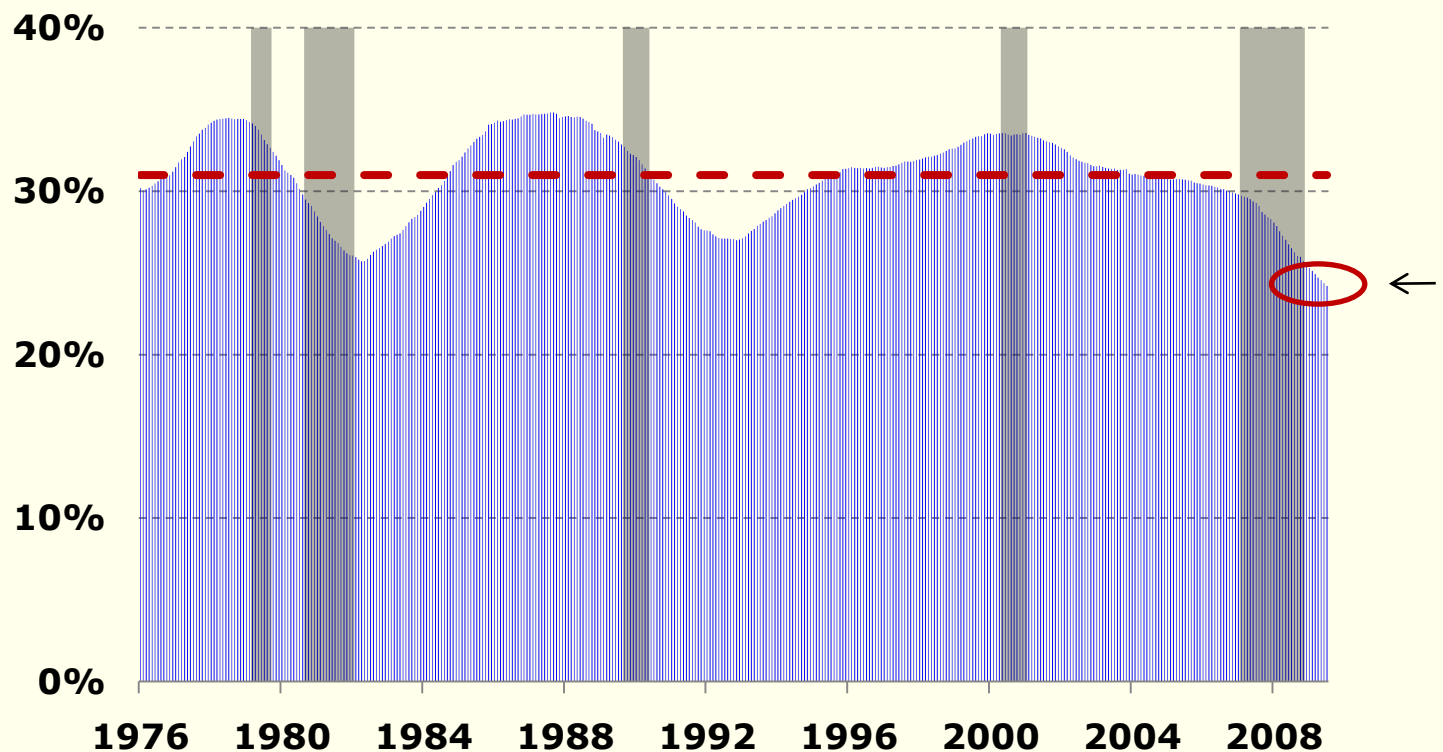
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Relative age of the car fleet indicates continued turnaround in car sales

The percent of "old" cars on the road is at a historic high

U.S. LMV Sales: Ratio of 36/120 Months

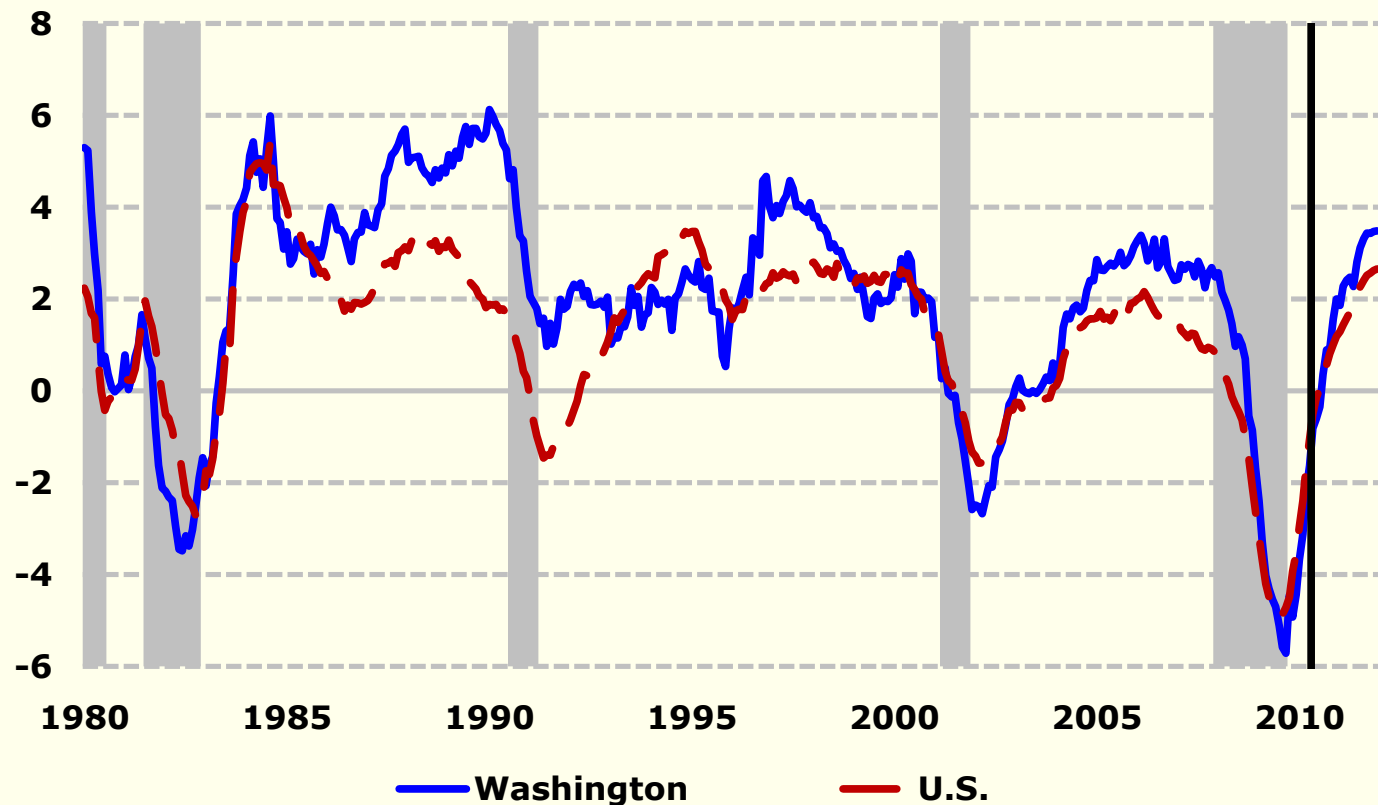


Source: Autodata Corporation, ERFC; data through May 2010



WA employment lagged the nation in the downturn and will recover stronger than the nation

Percent change, year ago

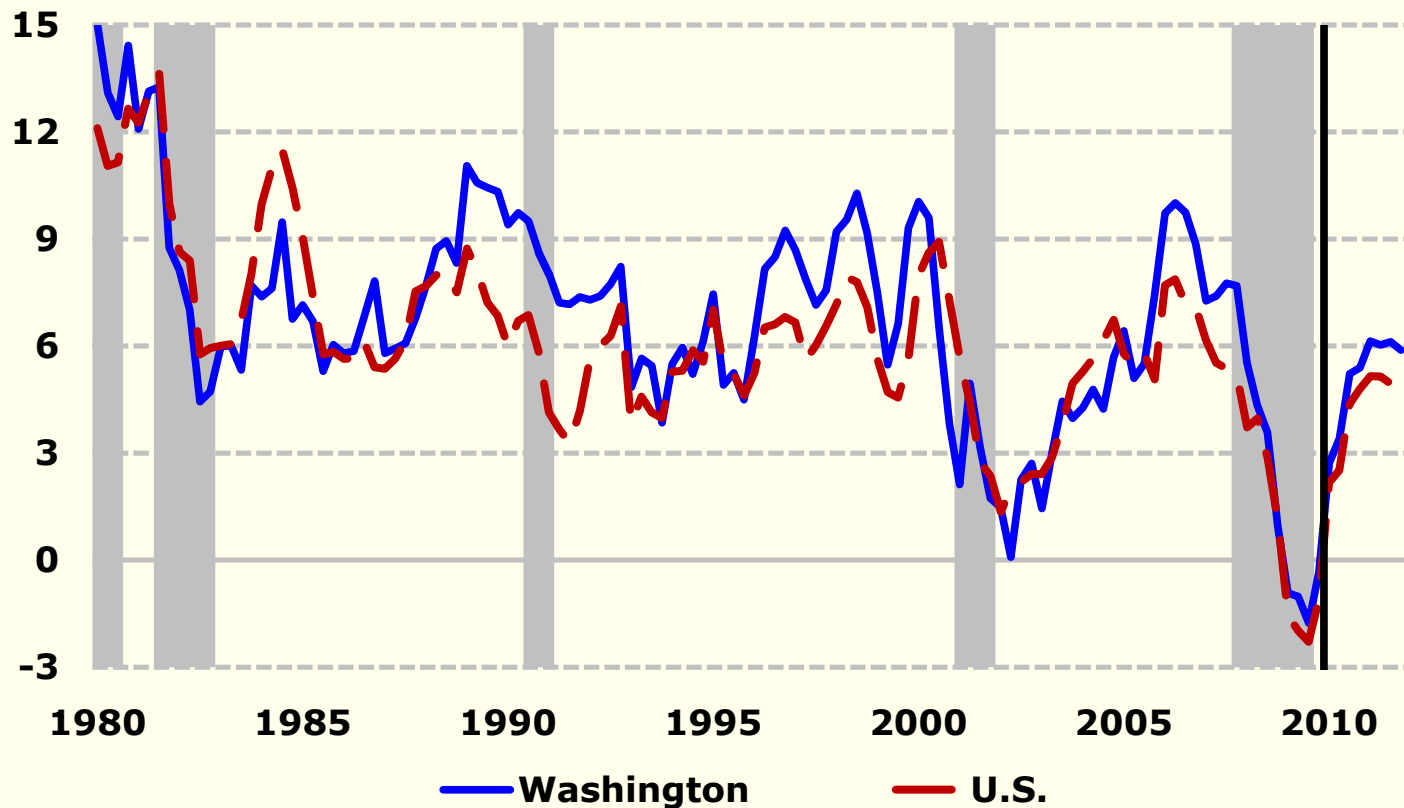


Source: ERFC June 2010 preliminary forecast; actual through April 2010



The recovery in WA personal income growth is expected to be better than the nation's

Percent change, year ago

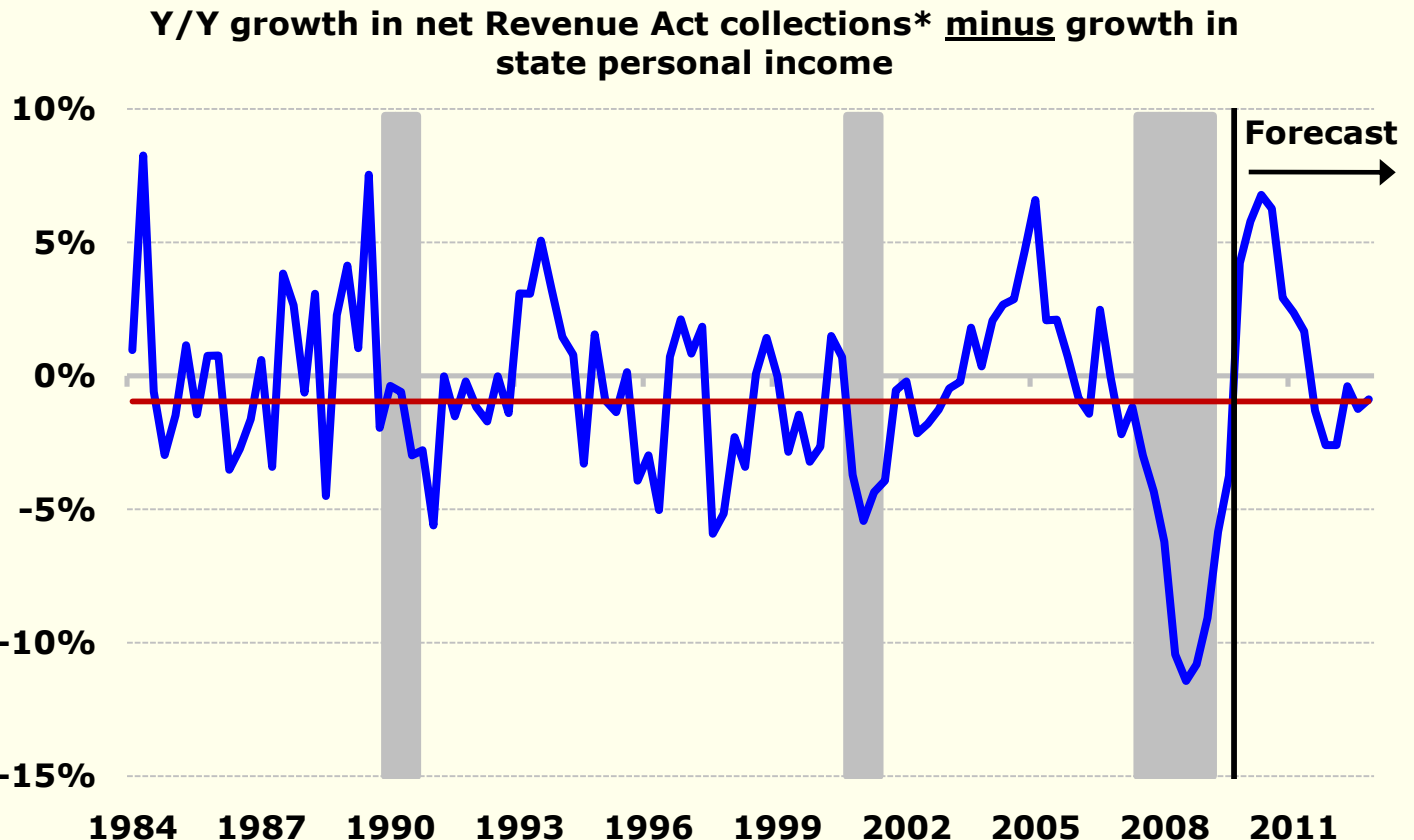


Source: ERFC June 2010 preliminary forecast; actual data through 2010Q1



Revenue growth relative to income is starting to turn around

The difference between the growth rate of Revenue Act collections and state personal income began to shrink in the second quarter of 2009.



* Adjusted for new legislation, current definition of Revenue Act

Source: DOR and ERFC; data through 2010Q1 estimated

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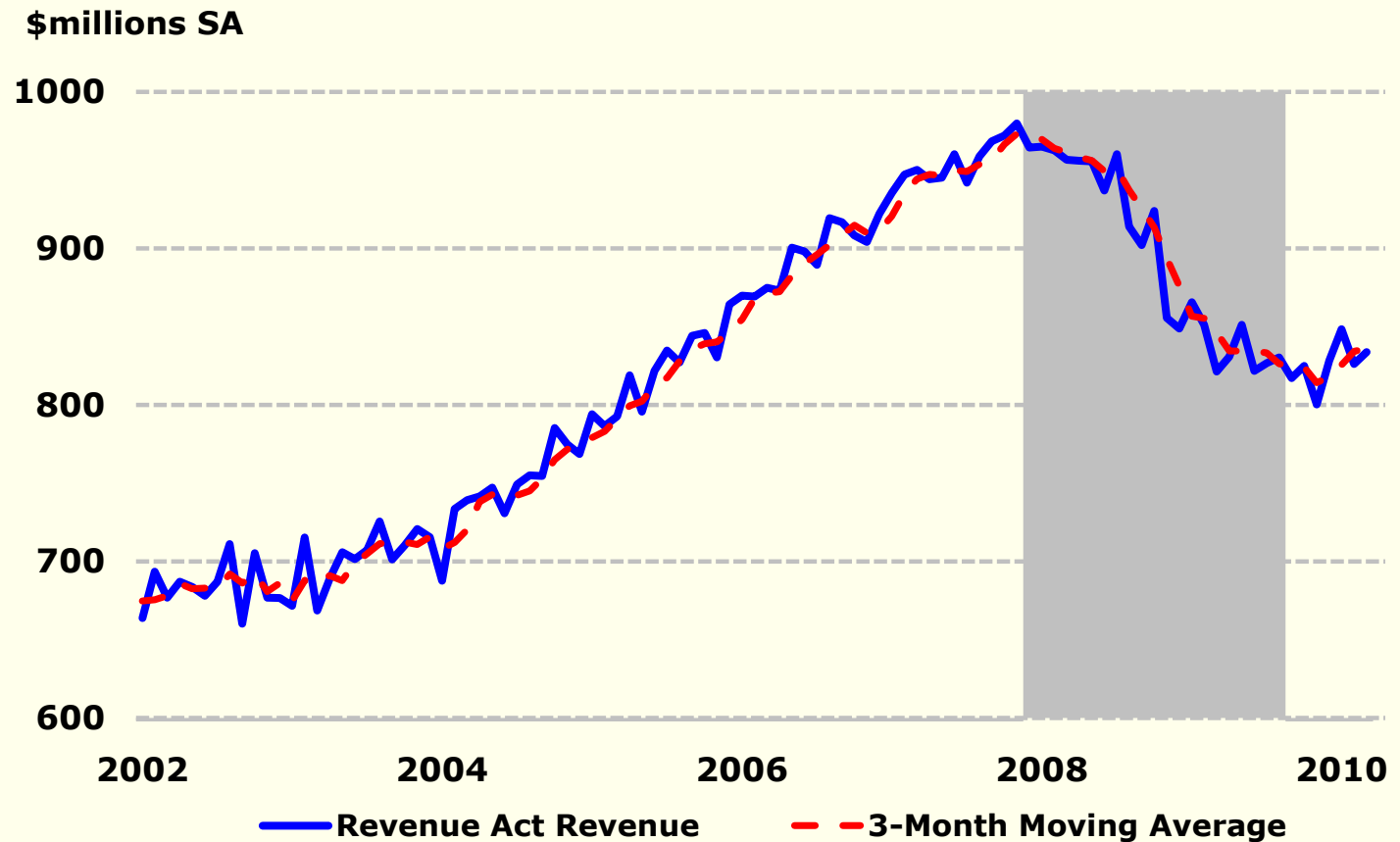
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Revenue Act collections are now trending upward

Adjusted receipts were up 2.3% year-over-year in the April 11-May 10 collection period – for March activity.



* Adjusted for new legislation and large one-time transactions, current definition of Revenue Act
Source: DOR and ERFC; monthly data through March 2010 Activity

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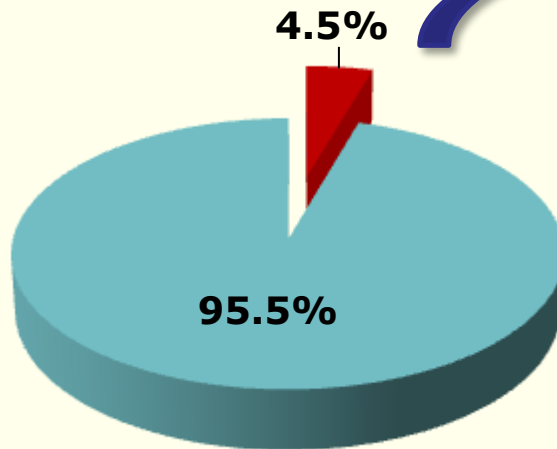


Construction contributes more to the GF-S than to State Product

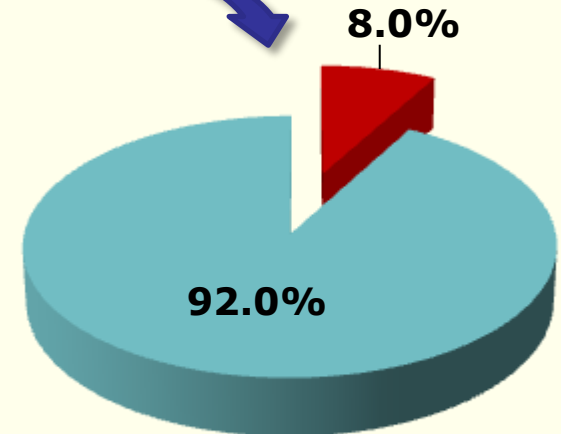
**1997 – 2004
Average**

**Excludes
bubble
years**

Gross State Product



General Fund Revenue



■ **Construction**

■ **All Other**

Source: Bureau of Economic Analysis, ERFC

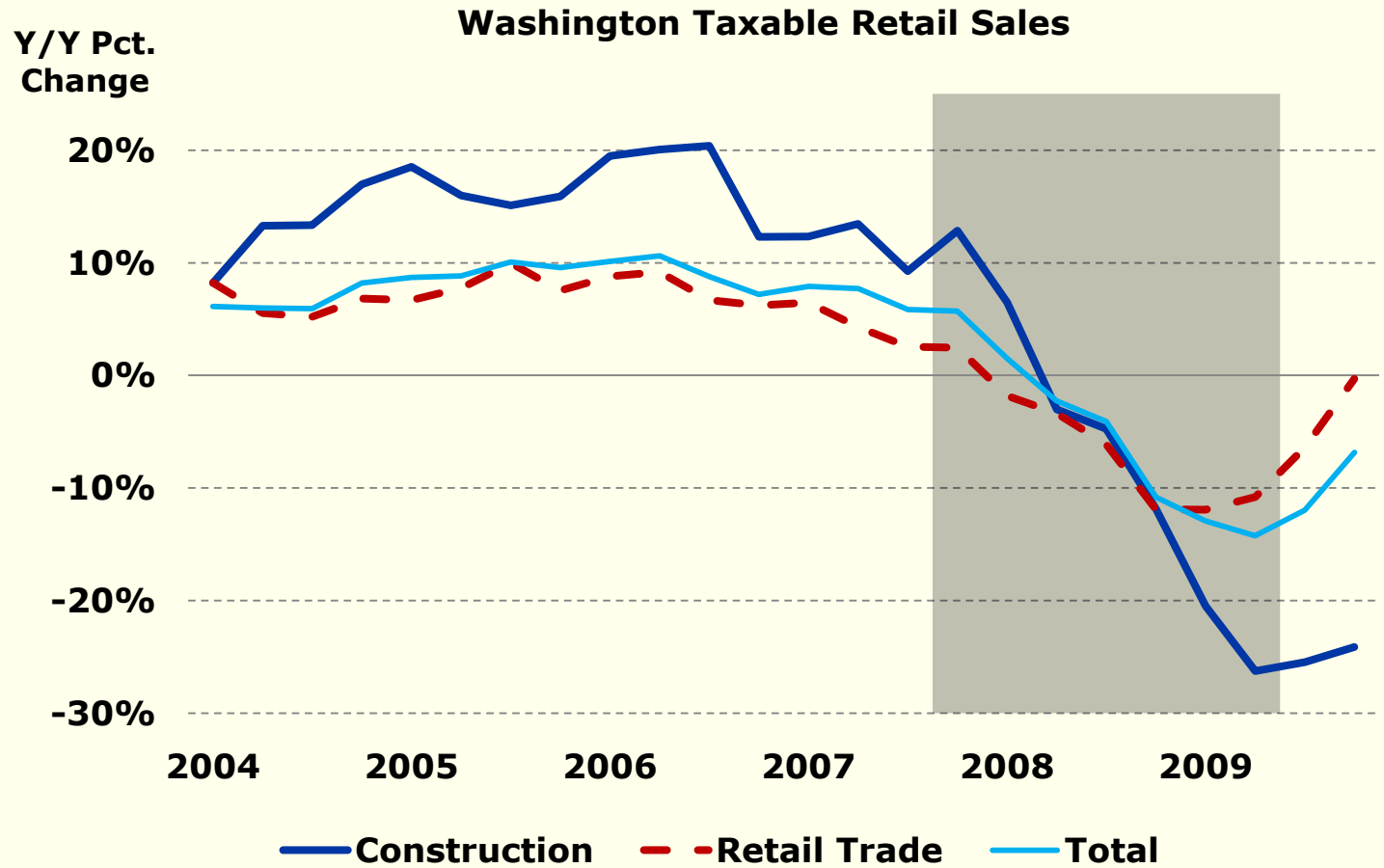
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Construction will continue to weigh down retail sales tax receipts

In recent years, tax receipts from the construction sector have accounted for 20% of retail sales tax revenue;

Retail trade accounts for 40%.



Source: DOR and ERFC; data through 2009 Q4

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Thurston County retail sales are recovering faster than the state

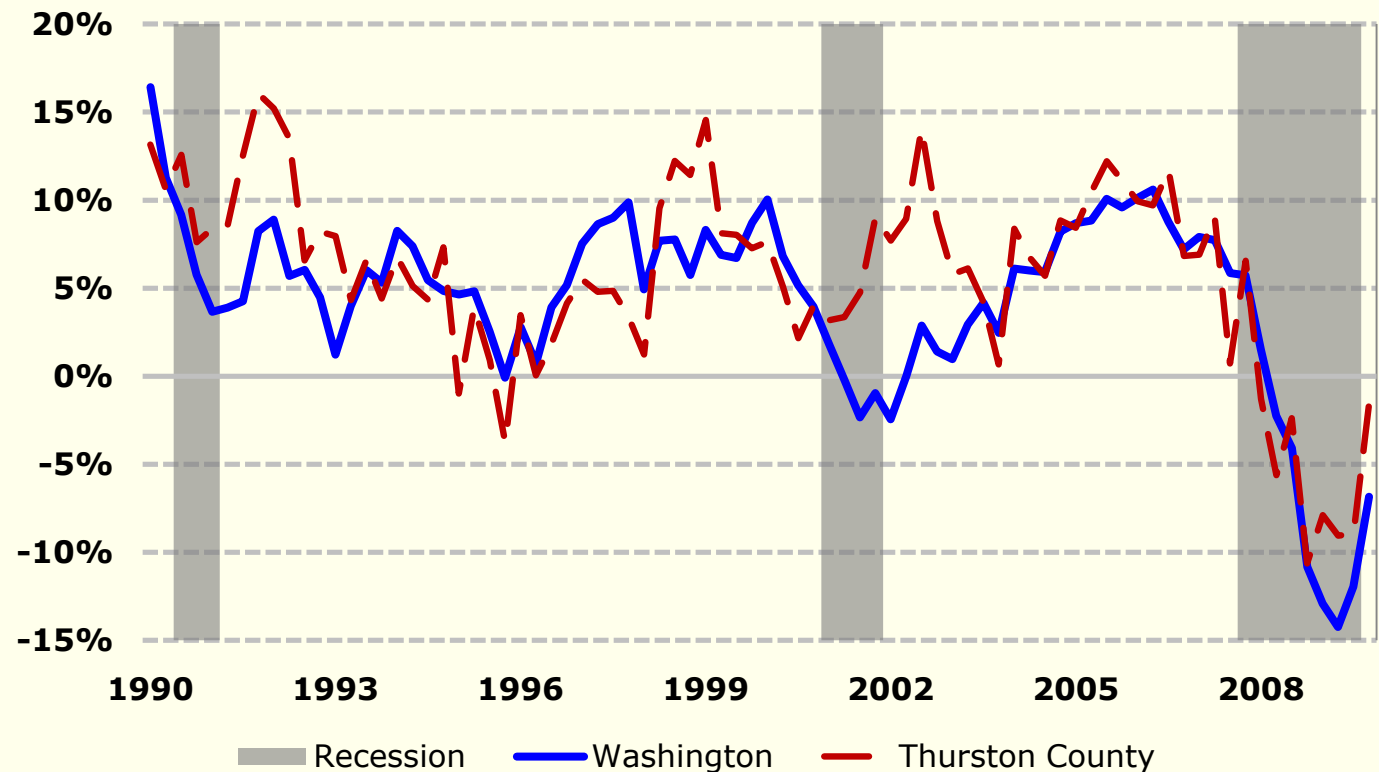
Thurston County's Q4 2009 taxable retail sales were down 1.7% year-over-year while those of the state were down 6.8%.

County Q4 2009 taxable sales were down 12.1% from Q4 2008; the state's were down 16.9%

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Taxable Retail Sales

Y-O-Y Growth

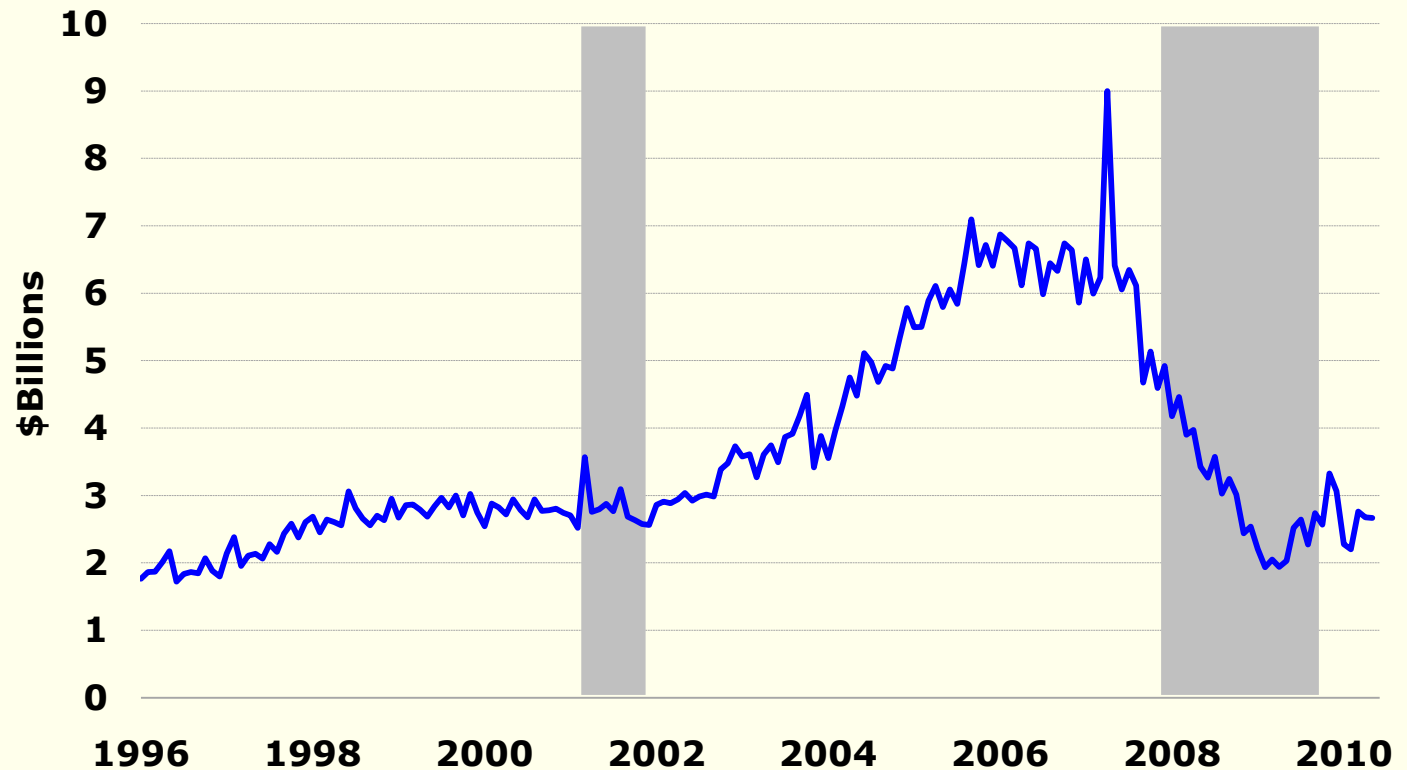


Source: DOR; Data through 2009Q4



Spring tax-credit rush has been subdued so far compared to fall's

Seasonally Adjusted Taxable Real Estate Excise Activity

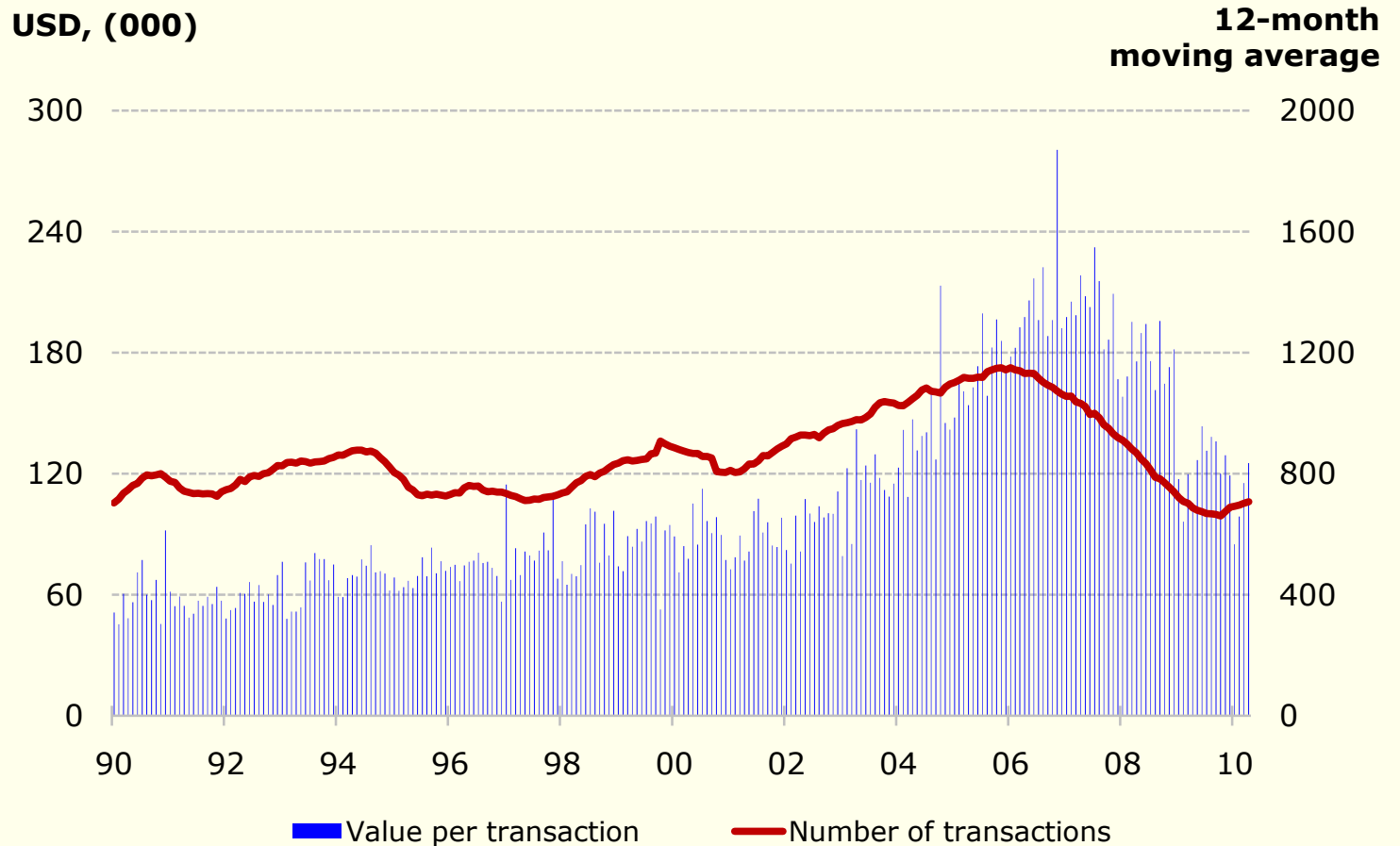


Source: ERFC; monthly data through May 2010



Thurston County REET collections are improving

CY 2010 to date, taxable activity is up 5% over year ago



Source: ERFC, data through April 2010



Conclusion

Pluses

- Recovery in progress
- Job growth has returned
- Car sales are improving
- Large banks able to extend credit

Minuses

- Credit still tight for small business
- Weak consumer confidence
- Slow recovery in construction
- Greece

- Revenues are coming in close to what we had predicted in our February forecast
- The next revenue collection update will be published on the 11th of June, and our new revenue forecast will be presented on the 17th.



Questions



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